

Mr. Chairperson and Members of the Committee:

My name is Nick Ciaramitaro and I am Director of Legislation and Public Policy for the Michigan Council of the American Federation of State, County and Municipal Employees. Michigan AFSCME Council 25 represents over 90,000 public and private employees and child care providers throughout the state of Michigan who work in nearly every area of public service. A large number of our members work as non-instructional staff in the public schools of this state and I am here today primarily to urge you to report House Bill 4533 favorably to the House floor. I will speak more on the overall issue of so-called privatization next week.

House Bill 4533 would strike from the Public Employees Relations Act a specific prohibition against bargaining on the issue of outsourcing non-instructional jobs to private for-profit corporations. The prohibition did not exist prior to a change in the law in 1994. Michigan AFSCME Council 25 believes that it is wrong for the State to leave local school employees out of the discussion of how to best provide food, transportation and custodial services. Many dedicated employees have been providing these services for years. They can and do provide these services more efficiently than for-profit corporations and it is just plain wrong to mislead the public into believing that outsourcing jobs is an effective form of cost saving. To the contrary the results are often more costs and less service.

Recent outsourcing of custodial and bus services have met with great dissatisfaction from parents across the State. Let me give you a few examples.

Three school board members in a Macomb County school district narrowly escaped recall; one board member did not seek re-election and was replaced by a candidate who opposed outsourcing custodial services, after the Board voted to outsource all custodial services. The custodians fired without notice were nearing the end of a three year contract with the school district. Though contract negotiations were set to begin in one week, the Board voted 4 to 3 to fire the entire custodial staff and hire an outside "cleaning service."

One year before that action was taken, the custodians, many of whom were life long residents of the community, had agreed to major contract concessions including a \$3 per hour reduction in salary (from \$15 to \$12 per hour), health care concessions and a reduction in force of six employees. No savings have ever been documented by the District but what we do know is that the new "cleaning service" has experienced a high turnover rate (within months of the contract, 25% of the new custodians quit including two the night of homecoming), is not available during the school day and provides fewer services to the district. Costs for ancillary services are on the rise.

In fact, within months of the outsourcing, the school district issued a new request for bids for "maintenance" work which eliminated even alleged savings to the school district as this work had previously been performed by the custodial staff without additional compensation.

The school district had expected savings but was not aware of the true cost comparisons because the AFSCME chapter representing the custodians could not offer a bid or refute the promises made by the private for-profit corporation. That's because requests for bids were distributed without notice to the custodians and with a cell phone number for response.

An Oakland County school district contracted out food services several years ago. Even though food service quality suffered, the contractor raised their prices in subsequent years.

In July of 2005, that same school district contracted with a neighboring school district to do minor work on their busses. The neighboring school district subcontracted that work to another district for these minor repairs and to start busses in the mornings. To save the cost of one employee paid at a rate \$22.91 per hour plus benefits who maintained 30 busses, 4 maintenance trucks, 1 food service van, a tractor and various grounds equipment, the district paid \$64.50 per hour at the beginning of the contract. In one 7 month period that amounted to over \$120,000.

Last winter the district contracted out snow plowing. The contract was for over \$50,000 for the season though the service was required less than 10 times. Prior to the outsourcing the work was done by the district's mechanic, grounds person and custodians in addition to their other duties.

About 10 years ago, another Oakland County school district outsourced four AFSCME custodial positions. After numerous problems with several private companies the School District asked AFSCME to reinstate those positions in the bargaining unit not as custodians but "cleaners" with less pay and benefits. The Local agreed to the proposal. Since that time they have remained AFSCME jobs and are now full custodians again with the same wages and benefits as all the other custodians in the units.

Michigan AFSCME Council 25 will be happy to share our documentation of these and other costs of outsourcing to school districts. Similar efforts at outsourcing have cost the State substantial sums of money in recent years and yet proposals to "save" money through privatization continue to be advanced. We will be sharing information on those failures next week as we have already done with many members of the Appropriations Committee.

I want to thank the Committee for its time and Rep. Andy Meisner for introducing this bill. Michigan AFSCME Council 25 is proud of the outstanding work its members do in serving the people of the State of Michigan and we stand ready, willing and able to compete with private corporations. We ask you to advance this bill so that our contracts are honored and so that a School District can get both sides of the story in order to make the best decision for the students. House Bill 4533 will not prohibit private contracts. But it will allow the people who do the work to tell their story and compete on a level playing field at the bargaining table. Thank you.



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Good morning. I would like to thank Chairman Miller and the entire Labor Committee for allowing me this opportunity to testify. Once again, my name is Cynthia Ann Paul and I am the legislative Director for the Service Employees International Union (SEIU) here in Michigan. SEIU currently represents 80,000 workers and their families in Michigan and approximately 64,000 of them are public sector workers, including head start employees, school employees, home care workers, scientists and engineers with the state of Michigan, sheriff deputies in Wayne County and our state's Correction Officers.

Privatization became a buzzword for both state and federal government reformers in the 1990's. Advocates claim it is a strategy to shrink the size of government, to improve its efficiency and serve citizens better. Unfortunately, these advocates too often oversell it as an answer to virtually anything that ails government. **Privatization refers to the performance of a formerly public agency's functions by a private contractor.** Advocates of privatization argue that self-interested bureaucrats produce inefficient government programs and that the free market can provide better and more efficient products and services. The logic behind this contention is flawed for the following reasons:

- First, the government's expenditures for goods and services have actually remained relatively stable since the early 1960's, at about 20 percent of the GDP.
- Second, the real constituency for these programs is the public, not the bureaucrats. Continuing budget battles over Medicare and Social Security have demonstrated just how hard it is to trim spending. Despite widespread anti-spending rhetoric, the fact is that most citizens like and need most of the programs on which government spends money.
- Third, it is not always clear that the private sector is more efficient than the public sector. Understand that the private sector's goal in every contract is to make a profit, whereas the public sector's goal is to provide quality services. Every tale of abuse in government can be matched by another in the private sector. In fact, many of the most popular government "horror stories" from the 1980's from influence peddling in the Department of Housing and Urban Development to overcharging in defense contracts involved unscrupulous behavior by private individuals. Another example is Halliburton.
- Fourth, the central argument of the privatization debate is that contracting out is superior because it reduces self-interested behavior on the part of government bureaucrats. The rest of the story of course, is that contracting out increases the number of people and organizations in the private sector with a direct stake in the size of government budgets. In fact, as one critic stated, "Contracting out expands the set of claimants on the public treasury". Indeed lobbying by contractors is a powerful engine behind spending for space, nuclear energy and defense programs.

### Additional Arguments:

- Public sector employees will lose their jobs, eroding our state's tax base. Equating to less revenue to the state and higher unemployment rates and demands on public services.
- Competition is an illusion in many contracts. Supporters of privatization promise that the private sector competition will improve quality of services and lower costs. But often, competition is minimal or avoided altogether through "sole source" and "no bid" contracts.
- Big firms win. The privatization process works to the advantage of large firms that want to minimize competition to help maximize profits and market share. Big firms often have the resources to "low ball" bids, offering services at a relatively low price with the ultimate goal of raising prices later when competition has dwindled.
- Corruption runs rampant. Where privatization has taken place, all too often private firms and government officials have used illegal and unethical practices to award contracts and maintain them. For example, in San Diego a private agency received 42 million taxpayer dollars in 1996 to run a private welfare-to-work program. During the program employees allegedly were unstructured to falsify documents to inflate job placement success rates so the agency could maintain its contract.
- Monitoring is inadequate. The state is responsible for monitoring the performance and billings of contractors, but the resources for monitoring are usually inadequate. Many times



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contracts are not managed well and they are not subject to state audits. When done properly, monitoring is indeed costly, and cuts into the purported cost savings derived from contracting out.

➤ Low wage jobs without benefits. Private companies with government contracts often pay their workers low wages and provide few, if any benefits. This hurts the local economy and increases the likelihood that these low-income employees will need public services.

Under the Engler Administration, privatization was primarily a mission based upon ideology. While he claimed privatizing achieved tax savings and government efficiency, there were no proofs to these claims. The Engler administration pushed privatization of state government regardless of efficiency, actual cost. At the center of most of these privatization initiatives are flawed or failed personal service contracts. Below are some examples of these failed privatizations initiatives:

➤ As a "privatizing pilot program", a three-year contract for road maintenance was awarded the **ABC Paving Company** even though their bid was nearly 30 percent higher than the M-DOT engineering cost estimate. No baseline data was established with which to evaluate the program. After the project failed to prove a savings to the state, the contract was extended for another three years. A Senate Fiscal Agency report on the contract indicated that the state paid nearly twice what it would have cost had M-DOT employees done the work.

➤ A \$3.5 million contract to privatize the **DNR State Park Reservation System** was terminated "for default" when the new system continued to fail. The contractor, DPCS, Inc. was given the contract as a no-bid extension to another \$3 million contract even though the company had been declared unqualified to provide the service in previous attempts to solicit bids for the system. **DPCS was paid a \$500,000 "settlement" to leave the contract in spite of his company's poor performance.**

➤ In 10 years, more than seven studies of privatization of the **state's liquor distribution** system were commissioned and completed. Each indicated that the system could not be privatized cost effectively or efficiently. A 1994 attempt to hire private contractors to run the system was aborted after more than two years of work when bids submitted did not come in low enough to meet the CS-138 requirements for private contracting of state services set by Civil Service rules. Regardless, in January of 1997, the \$600 million state-run system was privatized, stock and equipment were quickly sold off and more than 360 state employees were let go. With no contracts set in place to protect the taxpayer's interests, three private companies were given authorization by the Liquor Control Commission to manage the distribution of liquor. During its first nine month of operation, numerous operational and financial problems were experienced, and the **system lost approximately \$21 million.** Small businesses suffered the most, experiencing inconvenience resulting from unreliable deliveries and hardship and loss of business due to unavailability of product.

➤ In 1993, the **Michigan Natural Resources Magazine** originally published by the Michigan Department of Natural Resources was privatized. This "revenue generating" contract was awarded to Kolka & Robb, Inc. which was required to pay the state \$10,416 every month and maintain circulation at 100,000. **Circulation of the magazine dropped to 42,000. Further, after noticing that the vendor had failed to make its monthly payments to the state for nine months, the DNR renegotiated the Contract terms to help Kolka & Robb with its "cash flow problems."** The revised contract terms: 1) Suspended all vendor payments to the state for an additional six months, 2) Reduced the monthly payment amount, and 3) Extended the contract for three more years to allow the contractor more time to pay the state the \$875,000 agreed upon in the original seven-year contract.

➤ After a three-year "privatization pilot program" for on-site inmate clinical care at five prisons failed to show a conclusive cost savings, the original contract with Wexford Health Sources was suspended on September 30, 1997. Rather than returning the functions at these clinics to state classified employees status, the Department of Corrections opted to have the United Correctional Management Care, (UCMC) Inc. provide the service under an already existing contract for hospital and specialty care services. The contract contained a provision,



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which allowed United to provide interim or short-term staff "while Civil Services positions were vacant." To provide the service, UCMC hired a subcontractor, Wexford Health Sources. In spite of an independent contractor's evaluation, which indicated that no savings was realized under the original pilot program, on June 5, 1998, a new bid package was issued for a 15-month contract to provide on-site health care at the clinics.

➤ The pharmacists with the **Department of Corrections** have been under threat of privatization for the last 6 years, in spite of the fact that they are paid \$27.95/hour and a contractor charge \$100/hour to do the same work.

➤ **Michigan Department of Transportation (MDOT)** in 2004 the State Director Gloria Jeff recommended bringing routine design and environmental transportation projects back into the department, clearly demonstrating to the Appropriations Committees that this could save the department 20 percent. Yet the appropriations committees failed to include this recommendation in their transportation budget. The reason for the cost is savings is clear when looking at overhead for these employees, 71 percent of the state employee's wages are actual overhead that also includes equipment usage. On the other hand, consultant contractors have overhead costs of 225-275 percent of the employees' wages (which are higher than the state employees). They also bill the state separately for equipment/day usage and they charge separately for equipment usage.

➤ In the construction of M-6 over in Grand Rapids a private contractor designed and inspected 3 bridges that had to be torn down and reconstructed costing the state millions of dollars.

➤ A contractor in charge of constructing the deep injection well in Taylor, took short cuts and now it has started to leak contaminating the water table and supply in that area.

To avoid the above abuses, protect the public and be fiscally responsible, SEIU strongly encourages the state, local municipalities and school districts to put proper controls (framework), in place before privatizing services.

1. Every tax-funded contract should be subject to a full and comprehensive **audit**.
2. There must be a **comprehensive cost benefit analysis** comparing the cost of privatization verses public employment undertaken before any work is contracted out. This analysis must include any "**hidden costs**" frequently found in contracting out situations, such as contract preparation, monitoring the contractor's performance and the use of public equipment and facilities.
3. There must be an **actual cost savings demonstrated** before contracting out, that is subject to a thorough review by elected officials, like the Senate and House Appropriations Committee.
4. The contractor must be a **reputable company that is properly bonded**, so as to not subject the state or other public entity to potential legal causes of action.
5. The contractor must be subject to public scrutiny under **Michigan's Freedom of Information Act (FOIA)**.
6. Businesses receiving these public funds under contracts from public entities should be prohibited from using these funds to interfere with an employee's freedom to choose a voice at work.

Furthermore, SEIU supports HB 4533, which allows school districts to negotiate at the bargaining table the whole issue of privatization. Bringing back not only fairness, but also common sense to the negotiating table in our state's school districts.

Respectfully Submitted,

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